BELLSOUTH

Ben G. Almond
Executive Director-
Federal Regulatory

Suite 900
1133-21st Street, N.W.
Washington, D.C. 20036
202 463-4112
Fax: 202 463-4198

DOCKET FILE COPY ORIGINAL

EX PARTE OR LATE FILED

RECEIVED

AUG 15 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

August 15, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Bureau
1919 M Street, NW, Room 222
Washington, D.C. 20554

RE: In the matter of Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996
CC Docket No. 96-128 Ex Parte

Dear Mr. Caton:

On Thursday, August 15, Diane Giacalone, Michael Kellogg, David Cockcroft and Ben Almond, all representing the RBOC Payphone Coalition met with Mary Beth Richards, John Muleta, Robert Spangler and Anna Gomez, all of the Common Carrier Bureau. The purpose of the meeting was to discuss the key issues in the docket proceeding. The attached document was used for discussion purposes.

Please associate this notification and the accompanying document with the referenced docket proceeding.

If there are questions concerning this matter, please contact the undersigned.

Sincerely,

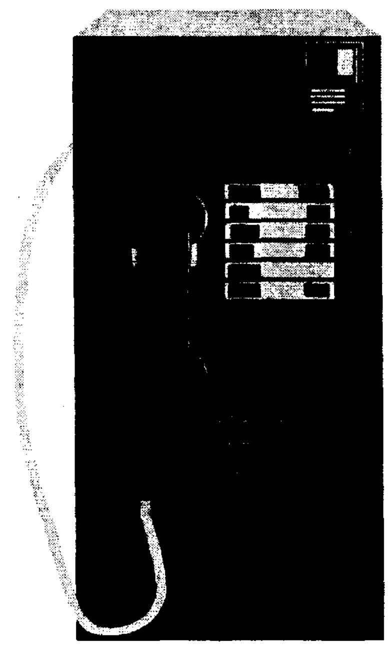
Ben G. Almond

Ben G. Almond
Executive Director-Federal Regulatory

cc: Mary Beth Richards
John Muleta
Robert Spangler
Anna Gomez

No. of Copies rec'd 0+1
List ABCDE

RBOC COALITION ON PAYPHONES:
EX PARTE PRESENTATION MATERIALS



OVERARCHING GOALS OF SECTION 276

- "Promote competition among payphone service providers"
- "Promote the widespread deployment of payphone services to the benefit of the general public"

Competition = Widespread Deployment

SPECIFIC GOALS OF RBOC PAYPHONE COALITION

- Market-based per-call compensation on all completed calls
- Ability to negotiate with location provider over choice of InterLATA carrier
- Valuation of physical assets at net book in keeping with prior Commission precedents
- Flexibility to choose structural integration subject to Computer III safeguards
- Deregulation of semi-public payphones and fair compensation on public interest payphones

THE PAYPHONE INDUSTRY TODAY

- More than 15,000 independent PSPs
  - Competition for locations and end user traffic

- More than 500 toll service providers
  - Competition for payphone toll traffic
  - Large carriers (e.g., 1-800-CALL-ATT, 1-800 COLLECT)
  - Debit cards

- More than 2 million payphones

- Estimated RBOC annual revenues of $2.3 billion.

- Competition from wireless ($18+ billion annual revenues)

DISTRIBUTION OF PAYPHONES IN COALITION REGION*

	Coalition	IPSPs
Total # of phones:	911,526	329,488
Total # of semi-pubs:	190,864	--
Total # of non-semi-pubs making less than $4/day:	265,997	--
Total # of competitive payphones:	454,665 (58%)	329,488 (42%)

Individual Coalition member range: 41% - 72%

*Data only available from five regions.

NUMBER OF NEWLY INSTALLED PUBLIC PAYPHONES*

	Coalition	IPSPs
1994	63,569 (46%)	76,052 (54%)
1995	55,177 (44%)	71,360 (56%)
1996 (to 6/30/96)	25,822 (40%)	39,308 (60%)

*Data only available from four regions; semi-public phones not included.

PER-CALL COMPENSATION

Key Principle: To regulate price is to regulate supply

- In setting per-call rate, FCC is determining the number of payphones that will be deployed
- Higher rate will lead to greater deployment; lower rate will lead to reduced deployment
- Competitive industry will not retain below-cost phones:
    - PSPs are not regulated utilities
    - Cross-subsidy is forbidden
    - Concerns with claims of predatory pricing

THREE APPROACHES TO PER-CALL COMPENSATION

- Cost-based approach:

  Determine anticipated costs of payphone unit under new legal regime

- "Revenue-neutral" approach:

  Replace lost subsidies (access charge elements) and compensate for increased costs (business lines, commissions)

- Market-based approach:

  Let market forces work wherever they can; where market cannot work, look for market-based proxies

PROBLEMS WITH COST-BASED APPROACH

- Cost-based approach does not equal "fair compensation"
- Cost-based approach either ignores widely different actual costs (among PSPs and in different states) or creates administrative nightmare
- Cost-based approach fails to support payphones with below-average usage or above-average costs
- Cost-based approach will result in regulatory death spiral

PROBLEMS WITH REVENUE-NEUTRAL APPROACH

- Revenue-neutral approach does not equal "fair compensation"
- Revenue-neutral approach assumes that LEC PSPs are being fairly compensated today, but many states do not allow rates that achieve full cost recovery
- Revenue-neutral approach based on one segment of the industry (RBOCs) will not be valid for industry as a whole

MARKET PRICES

- Market prices benefit consumers
  - Better services, lower costs, and higher deployment
- This is the approach the FCC chose in NPRM
  - Market is working for IPSPs on 0+ and 1+ calls
  - Market should be allowed to work wherever it can
- Market prices are only way for the Commission to move towards deregulating the payphone industry
  - Alternative is old-fashioned regulation in which FCC tries to better the market
  - This is a market in which the FCC can declare victory and move on

MARKET-BASED DEFAULT RATE

- TOCSIA prevents negotiations on dial around and 1-800-subscriber calls because PSPs have no leverage; same for 1+ and 0+ calls from RBOC phones under long-term contracts
- Commission should establish a default rate for 1+, 0+, dial around and 1-800-subscriber calls:
    - Default rate restores some leverage; if set high enough will allow negotiations to reach market price
    - Default rate will not lead to higher prices for consumers ("pass through"); based on the rates already negotiated by independent PSPs
    - Default rate will let market work wherever it can (e.g., Tariff 12)

WHAT'S THE DEFAULT RATE?

Per-Call Commission Received by Largest APCC Member	$0.90
Average Per-Call Compensation Assuming Average AT&T Tariffs	***$0.81***
Average Non-Coin Per-Call Compensation Received by Three Largest IPPs	$0.84
Updated and Revised 0- Transfer Charge Study	$0.46-$0.54

LOCAL CALL RATE

- All Coalition members agree that the market, not regulators, should establish the local call rate

- Three members believe immediate pricing freedom is appropriate

- Three members believe there should be a period of transition to full pricing freedom

RBOC PARTICIPATION IN SELECTION OF INTERLATA CARRIER

- RBOC participation is critical to use of market-based prices on 0+ and 1+ calls
- RBOC participation in selection of interLATA carrier is flipside to ability of all PSPs to participate in selection of intraLATA carrier
- RBOC participation will create "level playing field" for all PSPs
  - One-stop shopping
  - Aggregate toll for small businesses
- Location providers/consumers will benefit
  - Reduction in "carrier slamming"
  - Consumers will have rate predictability
  - Competitive impact on OSPs will improve rates
- RBOCs unable to discriminate against OSPs
  - Payphone market is competitive
  - Many OSPs are large competitors with strong bargaining power

INTRALATA CARRIER SELECTION

- All PSPs should be able to participate in selection of intraLATA carriers

- Dialing parity not required for Section 276
  - Not technically feasible to apply to payphones on a stand alone basis
  - Independent PSPs already have the functional equivalent of dialing parity with "smart" payphones

VALUATION OF PAYPHONE ASSETS

- Asset reclassification, not sale of assets
- Reclassification value consistent with precedent (net book value)
- Only tangible assets that exist on the books today should be considered
- Interest charges are not applicable
- Going concern valuation is inappropriate
  - Impractical to administer
  - Contrary to precedent and GAAP
  - Serious adverse effects on on-going business

NONSTRUCTURAL SAFEGUARDS

- The Coalition supports the application of nonstructural safeguards
  - Precedent of CI-III
  - Uniform cost allocation standards
  - External and internal audits
  - Price caps reduced incentive for non-compliance
- Proven effectiveness of nonstructural safeguards

PUBLIC INTEREST PAYPHONES

- Federal role should be minimal
  - States and localities should decide where and when to place public interest payphones
  - FCC must ensure that public interest payphones are supported "fairly and equitably"
- Requesting entity should pay
  - Competitive bids will determine market price
  - Public interest payphones can be part of larger contract with PSPs
- Grandfather the California plan at the request of Pacific Bell
  - Plan is unique to California, where there is high degree of competition and low percentage of public interest payphones
  - In other states, tax on competitive payphones would be onerous and price many payphones out of the market
- Semi-public phones should be detariffed and deregulated
  - Provided on a contract basis just like other payphones; only financial arrangements with location provider are different
  - Business owners have other options to allow customers to make calls: e.g., regular business access line with toll restrictions